

Shrem, Fudim, Kelner and Co. Ltd.

Directors' Report on the Company's State of Affairs As of March 31, 2006

Pursuant to the Securities Regulations (Periodic and Immediate Reports"), 1970, the board of directors is pleased to submit the Directors' Report of Shrem. Fudim, Kelner and Co. Ltd. ("the Company") for the three-month period ended March 31, 2006 ("the reporting period" or "the quarter", respectively), which also contains an update regarding significant changes and new developments that occurred in the Company's businesses in comparison with the Periodic Report of the Company for the year 2005. In this Report, the Company and its subsidiaries shall be called the Group.

1. Condensed description of the corporation and its business environment

The Company is a holding company; most of its activities are in the fields of the capital markets, industry, communications and technology, real estate and infrastructures, digital printing and trade and services.

Capital Markets: - The Company is engaged in the capital market, inter alia, through Leader Capital Markets Ltd., ("Leader Capital Markets"), which is engaged in providing management and underwriting services, in offerings of securities of companies interested in raising funds from the public, management of private placements, distribution of blocks of securities, brokerage services to investors, mainly to institutional investors, as well as investment in and trading of securities and financial instruments. At the end of February 2006, Leader Capital Markets published a prospectus to issue its shares to the public. Also see Paragraph 2.1.2 below. The Company also engages in this field through a subsidiary, Sphera Funds Management Ltd., which manages the Sphera Fund, a hedge fund for investment in marketable securities.

Industry: - Urda and the companies it controls are engaged in industry and commerce, focusing on metals, complex products, construction and development products, paints and insulation products.

Communications and technology: - The activities are carried out mainly through its directly and indirectly-held investee companies – Shrem Fudim Kelner Technologies Ltd. ("Technologies"), Telit Communications Plc, Cimatron Ltd., D.B.S. Satellite Services (1998) Ltd., and through its direct investments. At the end of February 2006, Technologies published a prospectus for the issuance of debentures and options to the public. Also see Paragraph 2.3.4 below.

Real Estate and Infrastructures – The Company operates through directly and indirectly held investees – Leader Real Estate, Polar Real Estate, Ofir Holdings Ltd., and Sitips Ltd.

Digital Printing - The digital printing segment includes the activities of Nipson Digital Printing Systems PLC and its investee companies.

Trade and Services – The activities are carried out mainly through its directly and indirectly-held investees, Hazera (1939) Ltd., Maximedia Street Advertising Ltd., Reshet – Noga Ltd., and other companies that consolidate automotive activity in Eastern Europe.

The Company is engaged, directly and through its investee companies, in the acquisition, establishment, improvement and business development of operations and companies in the aforementioned fields. In addition, the Company is engaged in, among other things, consulting and management services to its investee companies,

in hedge fund management, as described above, providing consultancy services in the field of investment banking and for several venture capital funds.

The Group and its subsidiaries wish to advance and develop their existing investments while continuing to implement the business strategy they have adopted, principally, a plan for business and organizational focus while expanding the Group's overseas activities. This strategy is intended to adapt the Group's business structure to the business environment in Israel and abroad.

The Company ended the first quarter of 2006 with net income of NIS 2.1 million, compared with net income of NIS 39.9 million in the first quarter of 2005. In 2005, the Company posted net income of NIS 58.5 million.

In April 2006, the Company and Leader each distributed a cash dividend of NIS 15 million. Additionally, in April and May 2006, Polar Communications and Urdan distributed a dividend of NIS 50 million and NIS 10 million, respectively.

2. Noteworthy events during the reporting period until proximate to the publication date of this Report, according to the Company's operating segments

2.1 Capital market segment

2.1.1 The Sphera Fund is a fund for investments in marketable securities, which as of the publication date of this Report totaled \$130 million. Sphera is managed by a corporation that is controlled by the Company, and by other managers.

The Sphera Fund ended the reporting period with income of NIS 18.5 million. The net dollar yield in the fund in the reporting period was 2.1%, compared with an increase in the Tel-Aviv 100 Index (in dollar terms) of 0.2% and an increase in the Nasdaq of 6.1%. The net dollar yield of the fund in the years 2005 and 2004 was 16.1% and 28%, respectively.

2.1.2 In the reporting period, Leader's board of directors resolved to consolidate the Group's capital market activities under a new company that was established on January 3, 2006 – Leader Capital Markets. The subsidiary of Leader was founded for the purpose of holding all of the capital issued by Leader & Co. Investment House Ltd. and of Leader Issuances (1993) Ltd., subsidiaries of Leader engaged in the capital market sector.

In February 2006, Leader Capital Markets published a prospectus for an initial public offering of its securities ("the prospectus"). Under the terms of the prospectus, Leader Capital Markets offered to the public 2,170,000 ordinary shares, NIS 0.01 par value. The offering pursuant to the prospectus closed on 7.3.2006, and the offering proceeds totaled NIS 33 million (before issue costs).

As a result of this offering, the Company's share holding percentage in Leader Capital Markets fell to 66%, and in its financial statements for the first quarter of 2006, it recorded a gain from the decline in shareholding percentage of NIS 20 million (the Company's share – NIS 12 million). For additional details, see Note 3.B.1 to the financial statements.

- 2.1.3 Subsequent to the balance sheet date, a subsidiary of Leader Capital Markets paid the sum of \$2 million to Yelin-Lapidot and to Yair Lapidot, in consideration for the transfer and allotment of shares of Yelin-Lapidot that constitute 30% of its capital ("the acquired shares"), and receipt of an option to increase its holdings in Yelin-Lapidot at a rate of up to 50% of its capital.

The acquired shares were allotted and transferred to a trustee, who will hold the acquired shares in a blind trust in favor of the subsidiary, until a written permit is received from the Commissioner of the Capital Market, Insurance and Savings in the Ministry of Finance ("the Capital Market Commissioner") to control and hold the means of control in Yelin Lapidot Provident Fund Management Ltd., a wholly-owned subsidiary of Yelin-Lapidot ("control permit").

In February 2006, approval in principle was received from the Capital Market, Insurance and Savings Department in the Ministry of Finance, that based on the preliminary data presented to them, they did not find, on the surface, a reason in principle not to approve the sale, and to grant the aforementioned control permit. The Company estimates that the final approval will take effect within a short time.

Yelin-Lapidot currently manages NIS 1.7 billion of assets.

2.2 Real estate and infrastructure segment

- 2.2.1 On 3.1.2006, Leader, through its wholly-owned subsidiary ("Leader Real Estate") signed a framework agreement with a third party ("the Partner") to acquire commercial rental real estate projects in Germany totaling up to €150 million. Leader's indirect share in the venture is 32.5%. The total investment of Leader Real Estate stood at 4.5% of the venture.

Additionally, an agreement was signed with a foreign financial institution, which is meant to make financing available to the venture at the rate of 90% of the transaction.

Pursuant to the agreement, the parties to the transaction were given six months to close the acquisition of residential properties at the said purchase price (including various acquisition costs) of €150 million. In the first stage, proximate to the signing of the financing agreement, the parties closed on the purchase of residential properties, that contain 1,500 housing units at a purchase price (including various acquisition costs) of €50 million. Moreover, as of the publication date of the financial statements, negotiations are underway to purchase additional properties totaling €65 million.

The share of Leader Real Estate in the above financing amounted to €2.4 million as of the publication date of the financial statements.

- 2.2.2 On 28.2.06, Leader, through Leader Real Estate, signed a framework agreement with a third party ("the Partner") to acquire commercial rental real estate projects in Germany totaling up to 120 million euro. The indirect share of Leader Real Estate in the venture, after another investor invested in the venture, is 47.5%. The total investment of Leader Real Estate stood at 4.7% of the venture.

Additionally, an agreement was signed with a foreign financial institution, which is making financing available to the venture at the rate of 90%. Supplementary financing at the rate of 3% of the transaction will be made

available to the venture by a partnership that is jointly managed by two corporations, one of which is controlled by the Company ("the Partnership").

Pursuant to the agreement, the parties to the transaction were given six months to close the acquisition of commercial properties at the said purchase price (including various acquisition costs) of €120 million. In the first stage, proximate to the signing of the financing agreement, the parties closed on the purchase of ten commercial properties, which contain shopping centers and supermarkets, at a purchase price (including various acquisition costs) of €40 million. In May 2006, the parties closed on another purchase at a total cost of €20 million. Moreover, agreements were signed to purchase additional properties at a total cost of €12 million, although the execution of the agreements is not yet complete.

The share of Leader Real Estate in the above financing amounted to €2.2 million as of the publication date of the financial statements. Moreover, the Partnership provided supplementary financing of €3.4 million, representing its pro rata obligation relative to the maximum amount of the transaction.

- 2.2.3 Leader Real Estate applied to a foreign bank to finance the purchase of the Postal Building in Berlin that was acquired in November 2005. Subsequent to the balance sheet date, Leader Real Estate received approval in principle from the foreign bank for €17 million.
- 2.2.4 Regarding the material transactions of Leader Tech in the real estate segment, see Note 5.B.2 to the financial statements.

2.3 Telecommunications and technology segment

- 2.3.1 In the reporting period, the Company and Technologies, after receiving approval from a general meeting of Technologies, acquired all of the holdings of the Japanese trade company Marubeni Corporation ("Marubeni") in Technologies which constituted, as of the date of sale, 16.8% of the voting rights in Technologies, in consideration for \$2.5 million, reflecting a share price of \$0.392 per share ("sale of Marubeni shares").

In February 2006, within the framework of the sale of Marubeni shares, Technologies acquired a total of 4,760,000 ordinary shares, NIS 0.01 par value each, of Technologies, in consideration for \$1.9 million (NIS 8.8 million). This acquisition was part of the balance (which stood at NIS 8.9 million before the acquisition) available to be bought back, in accordance with the ruling of Tel Aviv District Court, which approved the permitted distribution of up to NIS 10 million.

The shares acquired by Technologies became dormant shares. The Company acquired the balance of the Technologies shares owned by Marubeni, i.e. 1,617,494 ordinary shares, NIS 0.1 par value each, in consideration for \$0.6 million (NIS 3 million).

During and subsequent to the reporting period, Technologies sold off-exchange 516,000 ordinary shares, NIS 0.01 par value, of Technologies for total consideration of NIS 979 thousand.

Following these transactions, the Company's holdings in Technologies rose to 75% of its capital.

Upon the closing of the sale of Marubeni shares, all of the Marubeni rights that had been conferred on Marubeni pursuant to the March 2002 agreement, including with respect to shares, as well as the right to appoint a director on

behalf of Marubeni and including Marubeni's commitment to distribute dividends, lapsed.

2.3.2 During the last quarter of 2005, Technologies adopted a new strategy which was essentially to vary and expand its investment activity, so that commencing in 2006, Technologies would engage in a new field of activity – Private Equity. This activity is intended to include mainly investments in corporations operating in various fields, which are all characterized as suffering from financial or operational problems or some other special circumstances that cause them to be undervalued. In the opinion of Technologies, these companies have potential for high growth or good chances of recovery that will enable them to be sold at a later date for a good return on investment. Regarding Technologies' undertaking with Superior – see Note 3.A.8 to the financial statements.

2.3.3 On December 7, 2005, the board of directors of Technologies resolved to allot, in a private placement, NIS 18,000,000 par value of debentures (Series B), which are convertible into 8,571,429 ordinary shares of Technologies, in consideration for their par value, and 8,300,000 options (Series 1) without consideration, which may be exercised for ordinary shares of Technologies.

The debentures and options were allotted subsequent to the balance sheet date. Also see Note 3.A.2 to the financial statements.

2.3.4 In March 2006, Technologies issued securities pursuant to a prospectus for a public offering as follows:

NIS 50,000,000 par value of debentures (Series C), out of a series of NIS 100,000,000 par value of debentures (Series C), registered to bearer, which are to be repaid in four equal payments, bearing annual interest at the rate of 5.1%, linked (principal and interest) to the CPI. The debentures were issued in consideration for their par value.

6,250,000 options (Series 2) out of a series of 12,500,000 options (Series 2) registered to bearer, which may be exercised for ordinary shares, NIS 0.01 par value, so that each option may be exercised for one ordinary share, NIS 0.01 par value, against a cash payment of the exercise price of NIS 2.25, linked to the CPI (subject to adjustments).

3,750,000 options (Series 3) out of a series of 7,500,000 options (Series 3), registered to bearer, which may be exercised for ordinary shares, NIS 0.01 par value, so that each option may be exercised for one ordinary shares, NIS 0.01 par value, against a cash payment of the exercise price of NIS 2.1, linked to the CPI (subject to adjustments).

Out of the total proceeds of NIS 50 million from the public offering, Technologies allocated NIS 4 million, net, after deducting issue costs, as receipts on account of options, based on the prices of the options and debentures during the first three trading days on the Tel Aviv Stock Exchange. Also see Note 3.A.3 to the financial statements. The proceeds of this offering are earmarked, inter alia, to private equity investments, as described previously.

2.3.5 In March 2006, Polar Communications Ltd. ("Polar Communications") signed an agreement for the sale of all of its holdings in the share capital of Partner to Elron Electronic Industries for NIS 25 million. As a result of the closing of the sale, Polar Investments Ltd. posted a pre-tax gain in the first quarter of NIS 20 million (the Company's share is NIS 9.4 million).

2.3.6 The Company and companies under its control undertook to invest in Tenne, the Fund for Investment in Kibbutz Enterprises the sum of \$0.5 million and \$2.5 million, respectively. During 2005, the Company and companies under its control invested in Tenne NIS 0.3 million and NIS 1.8 million, respectively. During and subsequent to the reporting period, the Company and companies under its control invested in Tenne the sum of NIS 0.9 million and NIS 4.4 million, respectively.
Moreover, Leader owns 3% of the general partner of the Fund.

2.3.7 Further to the description in the Immediate Report for the year 2005, regarding arbitration proceedings between YES and Play TV Ltd., producer of the "Playboy" and "Adult" channels ("Play TV"), in connection with an arbitrator's ruling and the request for a clarification, the parties reached a compromise agreement whereby all the proceedings that had been conducted between them, covered by the arbitrator's ruling, have ended. Pursuant to the compromise agreement, YES is entitled to receive a certain sum from Play TV.

Likewise, further to the description in the Periodic Report for the year 2005 regarding the Andamol claim, it should be noted that the parties reached an agreement in principle on ending the dispute through a compromise, which has not yet been drafted into a binding agreement, whereby the claim will be withdrawn, and YES will pay \$180 thousand to Andamol (including for the purchase of certain content from Andamol).

2.4 Trade and services segment

In January 2006, Polar Communications (through its wholly-owned subsidiary) signed an agreement ("the Agreement") for the sale of 6% of the share capital and voting rights in Reshet, to a third party that also purchased an additional 14% of the shares from another shareholder in Reshet, for total proceeds of \$1.8 million.

The closing of the sale is contingent, inter alia, on obtaining approval from the Second Authority for Television and Radio Commission, under Section 36 of the Second Authority for Television and Radio Law, 1990, and upon fulfillment of additional terms stipulated in the agreement. If the sale is closed, Polar Communications will indirectly hold 30% of the share capital and voting rights in Reshet. Consequently, Polar is expected to post a pre-tax gain of NIS 6 million (the Company's share is NIS 1.2 million).

2.5 Industry segment

- 2.5.1 On May 14, 2006, a compromise agreement ("the Compromise Agreement") was signed between the plaintiffs and defendants, including a subsidiary of Urdan – H. Aloni ("Aloni"), in connection with a claim that was filed in the past for restrictive business practices ("the Claim").

On the signature date signed, the parties submitted the Compromise Agreement for approval with the District Court, which has not yet ruled on the matter. Pursuant to the Compromise Agreement, each of the represented plaintiffs may receive from the defendants (which are active companies), when future purchases are made from the defendants, a credit of 40% or 60% of the full price-list price (recommended price to the consumer) of these defendants, if evidence was brought that he had purchased tiles from that defendant or other specific bodies stipulated in this agreement, during the relevant period, which are the years 1995-1997, as stipulated in the Compromise Agreement. For additional details on the Compromise Agreement, see Note 3.B.3.a. to the financial statements.

In view of the aforesaid, the financial statements of Aloni include a provision of NIS 0.7 million, for its share of the Compromise Agreement.

- 2.5.2 Subsequent to the balance sheet date, the affiliate, E.E.R. Environmental and Energy Resources (Israel) Ltd. ("EER") offered to its existing shareholders (including Urdan), to participate in a capital offering of up to \$10 million ("planned offering") at a company value for EER of \$65 million (before the investment).

Since the planned offering has not yet been closed, EER decided to approach a banking corporation to obtain interim financing of \$1 million ("bank financing").

To secure the bank financing, Urdan, the Company and Technologies will furnish guarantees of \$630 thousand, \$280 thousand and \$90 thousand, respectively, on a pro rata basis between them, according to the ratio of their holdings in the share capital of EER. During the reporting period, the said companies provided half of these amounts as bridge loans, until the bank credit is provided.

Likewise, it was agreed between EER and a Japanese investor which is a shareholder in EER, that if the share of the Japanese investor in the planned offering will be between \$5 and \$10 dollars, then EER will transfer to the Japanese investor, without additional consideration, shares of the subsidiary of EER in Japan that constitute 17% of the voting rights and 4% of the rights in share capital of the Japanese company, so that after their transfer, the Japanese investor will hold 67% of the voting rights in the Japanese company and 55% of the rights in the share capital of the Japanese company. In this framework, it was also stipulated that the Japanese company will be responsible for marketing the Singapore company's products in Singapore, and will receive a license to distribute EER's products in Singapore (under conditions similar to the license that was given to the Japanese company for Japan). As of the date of this Report, the marketing activities for the EER products in Japan and/or Singapore have not yet begun.

There is no certainty that the planned offering will be executed in full, what its complete terms will be and what the share of each of the shareholders in EER (including Urdan) will be within the framework of its offering.

Moreover, EER approached its shareholders that participated in the last round of capital raised in September 2005 for a total of \$2.6 million, through shareholder loans together with options exercisable for share capital of EER (at a company value for EER of \$80 million), with a request that these shareholder loans be converted to share capital of EER, within the framework of the planned offering (i.e. at a company value for EER of \$65 million) and the above options will expire.

Under the terms of the last round of capital raised by EER, as aforesaid, the participation of Urdan was \$0.95 million, and the participation of the Company and Technologies was \$0.4 million and \$0.15 million, respectively. The Company, Urdan and Technologies decided to accept this request by EER regarding its share in the last round of capital raised by EER, in accordance with the above amounts.

For additional details, also see Note 3.C to the financial statements.

2.6 Additional events

2.6.1 Mr. Itschak Shrem, Chairman of the Board of Directors, provides the Company with management services through a company he controls ("Shrem Company").

Under the terms of the agreement with it, Shrem Company is entitled to an annual bonus that is computed based on the pre-tax adjusted income (on a consolidated basis) plus the Company's share in the results of affiliates ("the representative income"). Shrem Company informed the Company that:

- A. Beginning from the year 2006 and thereafter, the annual bonus will be reduced to 5% (instead of 7.5%) of representative income.
- B. Additionally, the bonus will be subject to a "high water mark", so that income for the purpose of the annual bonus will be on a cumulative basis. If in a certain year, beginning from 2006, the Company ends the year with a loss, the amount of the loss will be deducted from the representative income that was prescribed for the Company in the years subsequent to the year in which the loss was sustained.

2.6.2 Mr. Yair Fudim, the director and CEO of Leader, provides Leader with management services through Fudim Company ("Fudim Company"). Under the terms of the agreement with it, Fudim Company is entitled to an annual bonus that is computed based on the pre-tax adjusted income (on a consolidated basis) plus the Company's share in the results of affiliates ("the representative income").

- A. Beginning from the year 2006 and thereafter, the annual bonus will be reduced to 5% (instead of 7.5%) of representative income.
- B. Additionally, the bonus will be subject to a "high water mark", so that income for the purpose of the annual bonus will be on a cumulative basis. If in a certain year, beginning from 2006, the Company ends the year with a loss, the amount of the loss will be deducted from the representative income that was prescribed for the Company in the years subsequent to the year in which the loss was sustained.

- 2.6.3 In April 2006, the board of directors of Polar Communications and the board of directors of Polar Investments authorized the filing of a draft prospectus with the Israeli Securities Authority and the Tel Aviv Stock Exchange Ltd. ("TASE"), based on the financial statements of Polar Communications as of 31.12.2005 ("the prospectus").

Under the terms of the prospectus, Polar Communications will offer, through rights, without consideration, options (Series 4) that may be exercised for shares of Polar Communications. The exercise period and exercise price of the options (Series 4) have not yet been fixed. Likewise, pursuant to the prospectus, Polar Investments will offer to its shareholders, in an offer of sale through rights, the securities of Polar Communications it holds (including Series 4 options that the Company will receive in the aforementioned offering of rights by Polar Communications). After the above issuance of rights is closed, Polar Investments will no longer be the parent company of Polar Communications. Publication of the prospectus and the issuance of securities that will be offered pursuant to it are subject, inter alia, to the approval of the terms and the final version of the prospectus by the board of directors of Polar Investments and the board of directors of Polar Communications, receipt of the TASE's approval for listing the options (Series 4) of Polar Communications for trading on the TASE and obtaining permission from the Securities Authority to publish the prospectus. In May 2006, the Company's board of directors authorized the Group's participation in the aforementioned offer, which, when it will be completed, in the amount of NIS 70 million, in accordance with the pro rata shareholding percentage of the Company in Polar Investments.

The approval was given by the board of directors of Polar Investments, inter alia, based on the Fairness Opinion of Professor Amir Barnea, which states, inter alia, that the process of the sale of the shares of Polar Communications held by Polar Investments, to its shareholders, is justified from an economic standpoint and fair from the standpoint of the shareholders.

After completion of the process described above, Polar Communications will become a directly held investee of Leader.

- 2.6.4 Regarding the conversions of debentures and exercise of options in Urdan during the Reporting period until the publication date of this Report, see Note 3.B.3 to the financial statements.

In the reporting period, Leader sold 1,490 thousand shares of Urdan for NIS 4.5 million.

As a result of the aforesaid, the Company's shareholding percentage in Urdan, as of the publication date of this Report, stands at 47%.

- 2.6.5 In the reporting period, an investor who is not an interested party in Leader converted NIS 700,000 par value of Series C debentures into 91,600 ordinary shares of Leader. Subsequent to the balance sheet date, an interested party in Leader converted 4,650,000 par value of debentures into 608,487 ordinary shares of Leader. Following these conversions, the balance of Series B and C convertible debentures amount to 9,560,000 par value as of the Report date.

In the reporting period, an interested party in Leader exercised 500,000 Series I options for 500,000 ordinary shares of Leader, in consideration for NIS 2 million.

The effective shareholding rate of the Company in Leader after the above conversions is 56.5%.

2.6.6 In May 2006, the Company signed an agreement with Silberbaum Holdings Ltd. ("Silberbaum"), whereby it will sell its holdings in this company to Silberbaum for consideration of NIS 1 million to be paid in cash, as well as NIS 4.4 million to be paid in four equal annual installments (bearing interest and linkage differences), beginning May 18, 2007. Additionally, Silberbaum will transfer to the Company one million shares of World Group Holdings Ltd., which is traded on the stock exchange, as well as all of its holdings in two funds managed by Technologies.

3. Financial position

Presented below is data from the consolidated balance sheet and the balance sheet of the Company and the private companies it controls (*) in reported NIS of March 2006, in millions:

| | As of March 31, 2006 | | | As of December 31, 2005 |
|--|----------------------------|-----------------------|--|--|
| | Consolidated balance sheet | Company balance sheet | Balance sheet of the Company and private companies it controls (*) | Balance sheet of the Company and private companies it controls (*) |
| Current assets | 1,921.6 | 120.7 | 123.9 | 145.7 |
| Investments and loans in investee (affiliated) and other companies | 804.8 | 341.6 | 309.5 | 296.7 |
| Real property | 643.9 | - | - | - |
| Fixed assets | 664.0 | 23.4 | 24.8 | 25.2 |
| Other assets and deferred charges | 118.7 | - | 1.7 | 4.1 |
| Total assets | 4,153.0 | 485.7 | 459.9 | 471.7 |
| Current liabilities | 1,335.7 | 75.2 | 78.8 | 85.3 |
| Long-term liabilities | 1,796.3 | 144.2 | 111.6 | 102.1 |
| Minority interest | 729.7 | - | 3.2 | 6.0 |
| Convertible debentures | - | - | - | 11.7 |
| Receipts on account of options issued in subsidiaries | 25.0 | - | - | - |
| Shareholders' equity | 266.3 | 266.3 | 266.3 | 266.6 |
| Total liabilities and shareholders' equity | 4,153.0 | 485.7 | 459.9 | 471.7 |

(*) The balance sheet of the Company and private companies it controls – means the consolidated balance sheet which includes by the equity method public subsidiaries held directly by the Company (Leader and Technologies).

- The Company's shareholders' equity totaled NIS 266.3 million as of March 31, 2006, similar to the balance as of December 31, 2005, representing 58% of total assets of the Company and the companies it controls.

The changes in shareholders' equity in the reporting period derive from the Company's income of NIS 12.1, offset by a dividend of NIS 14.8 million that was paid by the Company subsequent to the Report date.

- Current assets totaled NIS 123.9 million as of March 31, 2006, compared with NIS 145.7 million at the end of 2005. The decrease in current assets was due mainly to the decrease in the cash balances used mainly to make investments and to repay liabilities to banks.
- Investments and loans in investee and other companies totaled NIS 309.5 million at the end of March 2006, compared with NIS 296.7 million at the end of December 2005. The increase in this item is explained by the Company's share in the income of investees of NIS 14.1 million (mainly Leader), offset by the Company's share of the dividend from Leader of NIS 8.6 million, as well as the acquisition of Technologies' shares from Marubeni, as described previously.
- The financial liabilities of the Company and the private companies it controls totaled NIS 190.4, compared with NIS 199.1 million at the end of 2005, reflecting the continued trend of improved liquidity and the reduction in the Company's liabilities. The net financial liabilities of the Company as of the end of March 2006, net of liquid resources, total NIS 66.5 million.

4. Operating results of the Company and the companies it controls

General

The Company ended the first quarter of 2006 with income of NIS 12.1 million, compared with income of NIS 39.9 million in the same quarter last year and a total of NIS 58.5 million in the year 2005. The profitability of the previous reporting periods for the year 2005 was characterized by capital gains from the realization of investments and gains from the decline in the shareholding percentage in investee companies by Leader and Polar Investments.

Data taken from the consolidated statements of operations of the Company and the companies it controls, is presented below (in reported NIS of March 2006, in millions):

| Company and private companies it controls (*) | Quarter I 2006 | Quarter I 2005 | Year 2005 |
|--|---------------------------|---------------------------|----------------------|
| Revenues from consultancy, management and participation in income of funds | 9.3 | 16.7 | 45.0 |
| Income from long-term investments, net | 0.1 | 5.8 | 7.4 |
| Income from marketable securities, net | 3.3 | 6.9 | 16.6 |
| Total other costs and expenses | <u>(9.9)</u> | <u>(11.9)</u> | <u>(39.6)</u> |
| Income before financing | 2.8 | 17.5 | 29.4 |
| Financing expenses, net | <u>(1.7)</u> | <u>(2.1)</u> | <u>(10.6)</u> |
| Income after financing expenses | 1.1 | 15.4 | 18.8 |
| Gain (loss) from decrease in shareholding percentage | (0.5) | - | 1.2 |
| Company's share in income of investees | 14.1 | (**)29.3 | 49.1 |
| Income taxes | (0.5) | (0.2) | (0.8) |
| Minority interest in income | <u>(2.1)</u> | <u>(4.6)</u> | <u>(9.8)</u> |
| Income for the period | <u>12.1</u> | <u>(**)39.9</u> | <u>58.5</u> |

(*) The data for the Company and private companies it controls – means the consolidated statement of operations which includes results by the equity method of the public subsidiaries held directly by the Company (Leader and Technologies).

(**) The financial statements were restated – also see Note 1.C to the financial statements.

The business results of the Company and the private companies it controls, in the reporting period, are explained as follows:

- The Company and the private companies it controls present turnover from consultancy, management and participation in the income of funds during the reporting period in the amount of NIS 9.3 million, compared with NIS 16.7 million in the same period last year.

This decrease in the reporting period is the result of the decrease in the Company's share in management fees and participation in the income of the Sphera Fund, due to especially good yields in the same period last year, and of the decrease in revenues from the Company's participation in the income of the funds.

- In the reporting period, the Company posted income from marketable securities of NIS 3.3 million, compared with NIS 6.9 million in the same period last year (includes income from marketable securities from the Sphera Fund). The decrease in revenues from securities is due to the weakness of the capital market during this quarter, in comparison with the same quarter last year (the TA 100 Index increased by 1.6%, compared with an increase of 4.5% in the same period last year).

- The Company's share in the income of investees in the reporting period and in the same period in 2005 amounted to NIS 14.1 million and NIS 29.3 million, respectively, and are explained mainly by the Company's share in the income of Leader. In the reporting period, Leader posted gains of NIS 20 million from the decrease in shareholding percentage due to the issuance of Leader Capital Markets (Company's share of NIS 12 million).
- Total other costs and expenses amounted to NIS 9.9 million in the first quarter of 2006, compared with NIS 11.9 million in the first quarter of 2005. The net decrease in costs during the reporting period originates mainly in the decrease in the accrual of bonuses for senior executives, which are based on the performance of private investees and the consolidated results of the Company, as well as from the decrease in the rate of the bonus to which the chairman of the board of directors and CEO of the Company are entitled, according to their notice to the Company, as described previously.
- Financing expenses of the Company and private companies it controls totaled NIS 1.7 million in the reporting period, compared with NIS 2.1 million in the same period last year. The decrease in financing expenses is due mainly to the decrease in the amount of the Company's liabilities.

5. Consolidated operating results of the Company

Revenues from sales, services, consultancy, management and underwriting totaled NIS 470.3 million in the first quarter of 2006, compared with NIS 458.2 million in the first quarter in 2005. The increase in revenues is explained mainly by the growth in the sales of Telit in the telecommunications and technology segment, of Nipson and the paints and insulation products in the industry segment, offset by the decrease in revenues due to the removal of Maximedia from consolidation in Polar Investments beginning from 2006.

Income from long-term investments and non-current and other assets, net, totaled NIS 48.7 million in the first quarter, compared with NIS 95.7 million in the same quarter last year. The quarter's income was due mainly to the gain to Polar Communications from the sale of its holdings in Partner, as discussed below, and to the Company's share in the gain of NIS 12 million from the decrease in Leader's shareholding percentage in Leader Capital Markets, as discussed previously. The income in the same quarter last year was due mainly to the issuance and sale to a third party of the shares of Nipson by Polar Communications, the gain from the realization of the Company's investment in Leader, the gain from the realization of Leader's holdings in BSR and the gain from the realization of the balance of the Company's holdings in Dash Securities.

Summarized results data out of the consolidated financial statements is presented below (in reported and adjusted NIS, as applicable, in millions):

| | Quarter I 2006 | Quarter I 2005 | Year 2005 |
|---|-------------------|-------------------|----------------|
| Revenues from sales, services, consultancy, management and underwriting | 470.3 | 458.2 | 1,903.5 |
| Income from investments, assets and other, net | 48.7 | 95.7 | 357.2 |
| Income from marketable securities, net | 22.7 | 31.8 | 66.8 |
| Company's share in income of investees, net | 0.1 | - | - |
| Total revenues | 541.8 | 585.7 | 2,327.5 |
| Cost of sales and services | 354.5 | 336.5 | 1,464.8 |
| Selling and marketing expenses | 57.2 | 47.5 | 202.7 |
| General and administrative expenses | 63.5 | (*)75.2 | 268.8 |
| Company's share in losses of investees, net | - | 6.8 | 21.9 |
| Financing expenses, net | 29.5 | 38.4 | 161.0 |
| Total expenses | 504.7 | 504.4 | 2,119.2 |
| Income before income taxes | 37.1 | 81.3 | 208.3 |
| Income taxes | 13.0 | (*)5.1 | 68.0 |
| Income after income taxes | 24.1 | 76.2 | 140.3 |
| Minority interest in results of subsidiaries | (12.6) | (*)(36.3) | (81.8) |
| Cumulative effect as of the beginning of the year of a change in accounting principles, net | 0.6 | - | - |
| Net income for the period | 12.1 | 39.9 | 58.5 |

Regarding information on operating segments, see Note 5 to the financial statements.

6. Liquidity

Cash flows used in the operating activities of the Company and the private companies it controls in the first quarter amounted to NIS 17.3 million. These flows derived mainly from the income of the Company, which was offset by the Company's share in the income of investees and from the decrease in payable balances.

Cash flows used in investment activities in the first quarter amounted to NIS 4.0 million. These flows were used mainly for long-term investment in investees and other companies.

Cash flows used in financing activities totaled NIS 12.1 million in the first quarter. The cash flows were used mainly in the repayment of bank credit of NIS 6.2 million and in a dividend paid to the minority shareholders in a subsidiary.

7. Financing sources

In financing their current operations, of the Company and the private companies it controls use their shareholders' equity as well as bank credit and debentures. During 2005, the Group changed the mix of its liabilities, from reliance mainly on bank credit to raising capital through debentures issued in public and private offerings. The liabilities of the Company and the private companies it controls to banks and other lenders and in debentures, net of liquid resources totaled NIS 66.5 million as of March 31, 2006.

8. Directors with Accounting and Financial Expertise

There were no significant changes in the reporting period with respect to disclosure provided on this subject in the Company's Directors' Report that was included in the Periodic Report of the Company for 2005.

9. Transactions from operations in the derivatives market

The maximum derivatives position of a subsidiary of Urdan in the reporting period was on 1.1.2006 in call options to purchase \$2.3 million against the NIS to hedge foreign currency supplier credit. As of the balance sheet date, this company had no open derivative transactions.

As of the balance sheet date, another subsidiary of Urdan has open forwards to purchase \$3 million for NIS 14 million. These trades are for a period of up to one year. They are intended for hedging purposes and their value amounts to a loss of NIS 0.1 million. The maximum position of such derivatives in the reporting period was NIS 14 million during March 2006.

Polar Investments' maximum derivatives position in the reporting period was from 1.1.2006 to 27.2.2006, in call options to purchase €40 million against the purchase of dollars, a put option to sell €40 million against the purchase of dollars, and a forward to purchase €10 million against the sale of dollars. As of the date of this Report, Polar Investments has no position in derivatives.

In view of the existence of dollar liabilities in the books of the Company and the private companies it controls, the Company and the private companies under its control occasionally execute transactions to hedge the exposure to changes in the dollar exchange rate. As of March 31, 2006, there were no open hedging transactions, and therefore, there was no effect on the Company's results in the reporting period.

As of the Report date, neither the Company nor Leader have positions in derivatives.

In addition to the above, the Company and Leader directly and through a subsidiary of theirs trade in the "Maof" derivatives market through the purchase and sale of financial derivative instruments, so that the maximum exposure deriving from this activity does not exceed NIS 15 million for each one of them. The Company and Leader equally share the risks, expenses and income deriving from these activities.

10. Qualitative Report on Exposure to Market Risk and Management Techniques

There were no significant changes during the reporting period in the Company's exposure to market risks and the management techniques as compared with that described in the Company's Directors' Report, which is included in the Company's Periodic Report for the year 2005.

11. Charitable Contributions

The Company regards contributions to the community as an important objective in its business activities and, therefore contributes in equal portions, together with Leader through the DASH Fund, which is a registered foundation that has been recognized as a not-for-profit organization. The principal objective of the association, as was stated upon its establishment is: "to establish a fund in Israel for contributions to charitable institutions and enterprises, to institutions, to the needy and indigent, to educational, cultural, sport, artistic, scientific, research, educational institutions and enterprises, for scholarships to students, health, welfare and medicine".

The amount of contributions – of the Company and consolidated (including contributions of the Company's subsidiaries) during the reporting period was NIS 208 thousand and NIS 705 thousand, respectively. The amount of contributions – of the Company and consolidated – in the year 2005 was NIS 357 thousand and NIS 1,653 thousand, respectively.

12. Peer Review

On July 28, 2005, the Israel Securities Authority issued a guideline in accordance with Article 36A of the Israeli Securities Law – 1968 in the matter of disclosure pertaining to the agreement to conduct a peer review, the goal of which, according to the guideline, is to initiate a control process regarding the work of accounting firms, and an assessment of the existence of the necessary procedures during the audit work performed by such firms, which would contribute to the existence of a progressive capital market.

The board of directors of the Company granted its consent to have the performance of a peer review.

13. Internal Auditor

There were no significant changes in the reporting period with respect to the disclosure related to the Internal Auditor provided in the Company's Directors' Report that was included in the Periodic Report of the Company for 2005.

14. Linkage Basis Report (in reported NIS in millions)

| | <u>Unlinked</u> | <u>Linked to the CPI</u> | <u>Linked to foreign currency (*)</u> | <u>Other/Non- monetary item</u> | <u>Total</u> |
|--|-----------------------|------------------------------|---|---|-----------------------|
| <u>As of March 31, 2006</u> | | | | | |
| Assets | | | | | |
| Cash and cash equivalents | 289.8 | - | 170.5 | - | 460.3 |
| Marketable securities | 231.0 | 31.1 | 137.5 | | 399.6 |
| Short-term deposits and investments | 38.0 | - | 0.9 | - | 38.9 |
| Current maturities and loans granted | 0.6 | 3.1 | - | - | 3.7 |
| Trade accounts receivable | 377.9 | 6.0 | 167.4 | 2.3 | 553.6 |
| Accounts receivable and other debit balances | 50.2 | 22.6 | 45.0 | 22.7 | 140.5 |
| Inventory and work in progress | - | - | - | 325.0 | 325.0 |
| Real property | - | - | - | 643.9 | 643.9 |
| Long-term investments in investee and other companies | 41.8 | 138.5 | 125.1 | 380.5 | 685.9 |
| Long-term deposits and loans granted | 12.0 | 27.8 | 79.1 | - | 118.9 |
| Fixed assets, net | - | - | - | 664.0 | 664.0 |
| Other assets and deferred charges | - | - | - | 118.7 | 118.7 |
| Total assets | <u>1,041.3</u> | <u>229.1</u> | <u>725.5</u> | <u>2,157.1</u> | <u>4,153.0</u> |
| Liabilities | | | | | |
| Short-term credit from banks and other | 316.7 | 270.4 | 70.1 | 44.8 | 702.0 |
| Trade accounts payable | 25.2 | 113.4 | 104.9 | 0.69 | 244.1 |
| Accounts payable and other credit balances | 172.7 | 32.7 | 44.3 | 36.5 | 286.2 |
| Advances from customers | 40.5 | - | - | 47.9 | 88.4 |
| Dividend declared | 14.9 | - | - | - | 14.9 |
| Long-term liabilities from banks and others | 340.3 | 461.5 | 222.5 | - | 1,024.3 |
| Debentures | - | 546.4 | 59.6 | - | 606.0 |
| Convertible debentures | - | 105.9 | 36.8 | - | 142.7 |
| Severance pay, net | - | - | - | 14.1 | 14.1 |
| Deferred taxes | - | - | - | 9.3 | 9.3 |
| Total liabilities | <u>910.3</u> | <u>1,530.3</u> | <u>538.2</u> | <u>153.2</u> | <u>3,132.0</u> |
| Minority interests | - | - | - | 729.7 | 729.7 |
| Receipts on account of options issued in subsidiaries | - | - | - | 25.0 | 25.0 |
| Shareholders' equity | - | - | - | 266.3 | 266.3 |
| | <u>910.3</u> | <u>1,530.3</u> | <u>538.2</u> | <u>1,021.0</u> | <u>1,021.0</u> |
| | <u>131.0</u> | <u>(1,301.2)</u> | <u>187.3</u> | <u>982.9</u> | <u>-</u> |

(**) Mainly in the U.S. dollar.

| As of December 31, 2005 | Total | Other/Non-monetary item | Linked to foreign currency (*) | Linked to the CPI | Unlinked |
|---|----------------|--------------------------------|---------------------------------------|--------------------------|-----------------|
| Assets: | | | | | |
| Cash and cash equivalents | 351.6 | - | 225.2 | - | 576.8 |
| Marketable securities | 369.2 | 4.5 | 76.0 | - | 449.7 |
| Short-term deposits and investments | - | 2.0 | 33.5 | - | 35.5 |
| Current maturities and loans granted | - | 14.9 | - | - | 14.9 |
| Trade accounts receivable | 122.8 | 1.0 | 172.9 | 258.7 | 555.4 |
| Accounts receivable and other debit balances | 59.3 | 26.2 | 44.8 | 12.8 | 143.1 |
| Inventory and work in progress | - | - | - | 366.3 | 366.3 |
| Real property | - | - | - | 634.1 | 634.1 |
| Long-term investments in investee and other companies | 39.4 | 130.8 | 77.7 | 374.3 | 622.2 |
| Long-term deposits and loans granted | 6.4 | 107.1 | 0.9 | - | 114.4 |
| Fixed assets, net | - | - | - | 646.6 | 646.6 |
| Other assets and deferred charges | - | - | - | 135.4 | 135.4 |
| Total assets | 948.7 | 286.5 | 631.0 | 2,428.2 | 4,294.4 |
| Liabilities: | | | | | |
| Short-term credit from banks and others | 412.8 | 329.5 | 127.5 | - | 869.8 |
| Trade accounts payable | 121.3 | 9.0 | 110.0 | 0.7 | 241.0 |
| Accounts payable and other credit balances | 172.0 | 44.9 | 52.8 | 10.1 | 279.8 |
| Advances from customers | 98.2 | - | - | - | 98.2 |
| Long-term liabilities to banks and others | 366.2 | 483.5 | 198.3 | - | 1,048.0 |
| Debentures | - | 510.5 | 61.5 | - | 572.0 |
| Convertible debentures | - | 138.1 | 11.6 | - | 149.7 |
| Severance pay | 0.8 | - | - | 12.2 | 13.0 |
| Deferred taxes | - | - | - | 10.8 | 10.8 |
| Total liabilities | 1,171.3 | 1,515.5 | 561.7 | 33.8 | 3,282.3 |
| Minority interests | - | - | - | 717.8 | 717.8 |
| Receipts on account of options issued in subsidiaries | 1.8 | - | - | 14.2 | 16.0 |
| Convertible debentures (quasi-equity) | - | - | - | 11.7 | 11.7 |
| Shareholders' equity | - | - | - | 266.6 | 266.6 |
| | 1.8 | - | - | 1,010.3 | 1,012.1 |
| | 1,171.3 | 1,515.5 | 561.7 | 1,044.1 | 4,294.4 |
| | (224.4) | (1,229.0) | 69.3 | 1,384.1 | - |

(*) Mainly in the US dollar.

The Company thanks its employees for their contribution to the Company and its shareholders for their trust.

Itschak Shrem-Chairman of the Board

Yair Fudim, CEO and Director

Date: May 23, 2006

Shrem, Fudim, Kelner & Co. Ltd.

**Financial Statements
As at March 31, 2006
(Unaudited)**

Consolidated Balance Sheets**Reported amounts**

| | March 31 2006 (Unaudited) NIS thousands | March 31 2005 (Unaudited) NIS thousands | December 31 2005 (Audited) NIS thousands |
|---|--|--|---|
| Current assets | | | |
| Cash and cash equivalents | 460,348 | 358,914 | 576,785 |
| Deposits and short-term investments | 38,857 | 66,773 | 35,447 |
| Marketable securities | 399,766 | 283,974 | 449,732 |
| Current maturities and loans receivable | 3,627 | 39,744 | 14,896 |
| Trade receivables | 553,559 | 527,169 | 555,417 |
| Other receivables | 140,483 | 191,123 | 143,109 |
| Inventory and work-in-process | 325,005 | 345,201 | 366,287 |
| | 1,912,645 | 1,812,898 | 2,141,673 |
| Real estate | 643,858 | 565,353 | 634,111 |
| Investments and long-term loans | | | |
| Investments in investee and other companies | 685,906 | 666,503 | 622,154 |
| Loans and deposits | 118,863 | 78,494 | 114,415 |
| | 804,769 | 744,997 | 736,569 |
| Fixed assets | 663,997 | 709,353 | 646,574 |
| Other assets and deferred expenses | 118,753 | 112,374 | 135,401 |
| | 4,153,022 | 3,944,975 | 4,294,328 |
| Current liabilities | | | |
| Credit from banks and others | 702,012 | 859,039 | 869,677 |
| Suppliers and service providers | 244,303 | 218,384 | 241,005 |
| Accounts payable and credit balances | 286,178 | (*) 292,115 | 279,799 |
| Payable in respect of dividend | 14,861 | - | - |
| Customer deposits | 88,387 | 43,037 | 98,212 |
| | 1,335,741 | 1,412,575 | 1,488,693 |
| Long-term liabilities | | | |
| Credit from banks and others | 1,024,375 | 1,226,228 | 1,048,030 |
| Debentures | 605,969 | 291,164 | 571,945 |
| Debentures convertible into shares | 142,632 | 158,122 | 149,692 |
| Employee retirement benefit, net | 14,078 | 17,525 | 13,030 |
| Deferred taxes | 9,272 | 11,061 | 10,821 |
| | 1,796,326 | 1,704,100 | 1,793,518 |
| Minority interest | 729,690 | (*) 543,325 | 717,802 |
| Receipts from share options issued by subsidiaries | 24,957 | 16,554 | 15,946 |
| Debentures convertible into company shares | - | 11,574 | 11,727 |
| Shareholders' equity | 266,308 | (*) 256,847 | 266,642 |
| | 4,153,022 | 3,944,975 | 4,294,328 |

(*) Restated

Date of approval: May 23, 2006

Consolidated Statements of Operations**Reported amounts**

| | For the three months ended | | For the |
|--|-----------------------------------|----------------------|----------------------|
| | March 31 | March 31 | year ended |
| | 2006 | 2005 | December 31 |
| | (Unaudited) | (Unaudited) | (Audited) |
| | NIS thousands | NIS thousands | NIS thousands |
| Income | | | |
| Income from sales, services, consulting, management and underwriting | 470,320 | (*)458,206 | 1,903,522 |
| Gain on marketable securities, net | 22,724 | 31,866 | 66,779 |
| Gain on sales of investments, loans and assets, net | 48,707 | 95,661 | 357,164 |
| Company's equity in earnings of investment, net | 76 | - | - |
| | 541,827 | 585,733 | 2,327,465 |
| Costs and expenses | | | |
| Cost of sales and services | 354,510 | 336,522 | 1,464,786 |
| Selling and marketing | 57,221 | 47,491 | 202,650 |
| General and administrative | 63,511 | (*)75,251 | 268,800 |
| Company's equity in losses of investment, net | - | 6,775 | 21,942 |
| Financing expenses, net | 29,520 | 38,429 | 160,983 |
| | 504,762 | 504,468 | 2,119,161 |
| Earnings before taxation income | 37,065 | 81,265 | 208,304 |
| Taxes on income | 12,974 | (*)5,082 | 67,987 |
| Earnings from operations after taxes on income | 24,091 | 76,183 | 140,317 |
| Minority interest in earnings of subsidiaries, net | (12,588) | (*) (36,244) | (81,790) |
| Earning before cumulative effect as at beginning of year of change in accounting principles, net | 11,503 | 39,939 | 58,527 |
| Cumulative effect as at beginning of year of change in accounting principles, net | 619 | - | - |
| Net earnings for the period | 12,122 | 39,939 | 58,527 |
| Net earning per share capital: | | | |
| Basic earning per share: | | | |
| Earning from operating activities | 0.64 | 2.19 | 3.20 |
| Earnings from cumulative effect as at beginning of year of change in accounting principles, net | 0.03 | - | - |
| Net earnings | 0.67 | 2.19 | 3.20 |
| Diluted earnings per share: | | | |
| Earning from operating activities | 0.52 | 1.95 | 2.39 |
| Earnings from cumulative effect as at beginning of year of change in accounting principles, net | 0.03 | - | - |
| Net earnings | 0.55 | 1.95 | 2.39 |

(*) Restated

Statements of Changes in Shareholders' Equity**Reported amounts**

| | Share capital | Premium on shares and capital reserves | Receipts from issuance of options | Adjustments from the translation of financial statements of autonomous foreign investees of an affiliate | Loans to employees for the purchase of shares | Company shares held by the Company and subsidiary | Dividend proposed | Retained losses | Total |
|--|---------------|--|-----------------------------------|--|---|---|--------------------------|--------------------------|----------------|
| | NIS thousands | | | | | | | | |
| Balance as at January 2006 (Audited) | 25,548 | 166,539 | 3,201 | (102) | (1,199) | (7,300) | (**)14,861 | (**)65,094 | 266,642 |
| Three month period ended March 31, 2006 (Unaudited) | | | | | | | | | |
| Inclusion of negative goodwill in retained earnings (*) | - | - | - | - | - | - | - | 943 | 943 |
| Splitting of capital component from convertible debentures (*) | - | - | 592 | - | - | - | - | - | 592 |
| Conversion of options into shares of the Company | 112 | (112) | - | - | - | - | - | - | - |
| Adjustments from the translation of financial statements of autonomous foreign investees | - | - | - | 1,860 | - | - | - | - | 1,860 |
| Dividend declared in the current period | - | - | - | - | - | - | (14,861) | - | (14,861) |
| Capital reserves of investee company | - | 83 | - | - | - | - | - | - | 83 |
| Purchase of company shares | - | - | - | - | - | (1,073) | - | - | (1,073) |
| Net earnings for the period | - | - | - | - | - | - | - | 12,122 | 12,122 |
| Balance as at March 31, 2006 (Unaudited) | 25,660 | 166,510 | 3,793 | 1,758 | (1,199) | (8,373) | - | 78,159 | 266,308 |

(*) Initial implementation of accounting standards

(**) Reclassified

Statements of Changes in Shareholders' Equity (cont'd)**Reported amounts**

| | Share capital | Premium on shares and capital reserves | Adjustments from the translation of financial statements of autonomous foreign investees of an affiliate | Loans to employees for the purchase of shares | Company shares held by the Company and subsidiary | Dividend proposed | Retained earnings | Total |
|---|------------------|---|--|---|--|----------------------|----------------------|----------------|
| | NIS thousands | | | | | | | |
| Balance as at January 1, 2005 (Audited) | 25,360 | 164,850 | 8,670 | (3,194) | (2,451) | - | 30,559 | 223,794 |
| Three month period ended March 31, 2005 (Unaudited) | | | | | | | | |
| Conversion of debentures into shares of the Company | 125 | 802 | - | - | - | - | - | 927 |
| Adjustments from the translation of financial statements of autonomous foreign investees | - | - | (7,813) | - | - | - | - | (7,813) |
| Dividend declared subsequent to balance sheet date | - | - | - | - | - | 9,131 | (9,131) | - |
| Net earnings for the period | - | - | - | - | - | - | (*) 39,939 | (*) 39,939 |
| Balance as at March 31, 2005 (Unaudited) | <u>25,485</u> | <u>165,652</u> | <u>857</u> | <u>(3,194)</u> | <u>(2,451)</u> | <u>9,131</u> | <u>61,367</u> | <u>256,847</u> |

(*) Restated

Statements of Changes in Shareholders' Equity (cont'd)**Reported amounts**

| | Share capital | Premium on shares and capital reserves | Receipts from issuance of options | Adjustments from the translation of financial statements of autonomous foreign investees | Loans to employees for purchase of shares | Company shares held by the Company and subsidiary | Dividend declared subsequent to balance sheet date | Retained earnings | Total |
|--|----------------------|---|--|---|---|--|--|----------------------|----------------------|
| | <u>NIS thousands</u> | <u>NIS thousands</u> | <u>NIS thousands</u> | <u>NIS thousands</u> | <u>NIS thousands</u> | <u>NIS thousands</u> | <u>NIS thousands</u> | <u>NIS thousands</u> | <u>NIS thousands</u> |
| Balance as at January 1, 2005 (Audited) | 25,360 | 164,850 | - | 8,670 | (3,194) | (2,451) | - | 30,559 | 223,794 |
| Changes in the year ended December 31, 2005 (Audited) | | | | | | | | | |
| Issuance of options | - | - | 3,201 | - | - | - | - | - | 3,201 |
| Purchase of company shares | - | - | - | - | - | (4,849) | - | - | (4,849) |
| Capital reserves of investee company | - | 486 | - | - | - | - | - | - | 486 |
| Repayment of loan to employees for purchase of shares | - | - | - | - | 1,995 | - | - | - | 1,995 |
| Dividend | - | - | - | - | - | - | - | (9,131) | (9,131) |
| Conversion of debentures into shares of the Company | 188 | 1,203 | - | - | - | - | - | - | 1,391 |
| Adjustments from the translation of financial statements of autonomous foreign investees | - | - | - | (8,772) | - | - | - | - | (8,772) |
| Dividend declared subsequent to balance sheet date | - | - | - | - | - | - | (*)14,861 | (*)(14,861) | - |
| Net profit for the year | | | | | | | | 58,527 | 58,527 |
| Balance as at December 31, 2005 (Audited) | 25,548 | 166,539 | 3,201 | (102) | (1,199) | (7,300) | 14,861 | 65,094 | 266,642 |

(*) Reclassified

Consolidated Statements of Cash Flows**Reported amounts**

| | For the three months ended | | For the |
|--|-----------------------------------|----------------------|--------------------|
| | March 31 | March 31 | year ended |
| | 2006 | 2005 | December 31 |
| | (Unaudited) | (Unaudited) | (Audited) |
| NIS thousands | NIS thousands | NIS thousands | |
| Cash flows from operating activities: | | | |
| Net earnings | 12,122 | (*)39,939 | 58,527 |
| Adjustments required to reconcile cash from operating activities (Annex A) | 460 | (*)(24,779) | (102,332) |
| Net cash inflow (outflow) from operating activities | 12,582 | 15,160 | (43,805) |
| Cash flows from investing activities: | | | |
| Purchase of fixed assets, real estate and amounts charged to projects under construction and other assets | (11,065) | (116,841) | (231,428) |
| Proceeds from sale of fixed assets and other assets | 4,751 | 41,842 | 111,309 |
| Proceeds from sale of marketable securities, short-term investments and deposits, net | 66,753 | (99,802) | (150,711) |
| Investments in investee and other companies (including through loans and capital notes), net | (75,962) | (27,350) | (128,333) |
| Changes in deposits and loans granted, net | 8,718 | (26,482) | (38,622) |
| Proceeds from sale of investment in investee and other companies | 31,149 | 214,772 | 467,535 |
| Initially fully or proportionately consolidated companies and acquisition of activities (Annex C) | - | - | 7 |
| Companies formerly fully or proportionately consolidated no longer consolidated and activities sold (Annex D) | (121) | - | 6,689 |
| Companies formerly proportionately consolidated initially fully consolidated (Annex E) | 2,277 | - | (2,690) |
| Net cash inflow (outflow) from investment activities | 26,500 | (13,861) | 33,756 |
| Cash flows from financing activities: | | | |
| Purchase of treasury shares | (1,073) | - | (4,849) |
| Issuance of debentures and convertible debentures in consolidated companies, net | - | 10,913 | 67,912 |
| Dividend to minority in subsidiaries | (9,475) | (11,036) | (35,277) |
| Repayment of loans and capital notes, net | (106,833) | (76,613) | (238,869) |
| Issuance of marketable securities of subsidiaries | 22,229 | 228,079 | 725,081 |
| Receipt (repayment) of short-term credit, net | (44,297) | 7,001 | (52,963) |
| Repayment of loans for the purchase of company shares | - | - | 1,995 |
| Issue of debentures and convertible debentures in consolidated companies, net | 43,066 | - | 63,479 |
| Issuance of option warrants | - | - | 3,201 |
| Dividend | - | - | (9,131) |
| Repayment of debentures and convertible debentures in consolidated companies | (61,532) | (11,026) | (131,989) |
| Net cash inflow (outflow) from financing activities | (157,915) | 147,318 | 388,590 |
| Translation differences with respect to cash balances with respect to cash balances in autonomous investee companies | 2,396 | (1,074) | (13,127) |
| Increase (decrease) in cash and cash equivalents | (116,437) | 147,543 | 365,414 |
| Balance of cash and cash equivalents at beginning of period | 576,785 | 211,371 | 211,371 |
| Balance of cash and cash equivalents at end of period | 460,348 | 358,914 | 576,785 |

(*) Restated

Consolidated Statements of Cash Flows (cont'd)**Reported amounts****Annex A -
Adjustments required to reconcile cash from
operating activities**

| | For the three months ended | | For the |
|--|-----------------------------------|----------------------|----------------------|
| | March 31 | March 31 | year ended |
| | 2006 | 2005 | December 31 |
| | (Unaudited) | (Unaudited) | (Audited) |
| | NIS thousands | NIS thousands | NIS thousands |
| Income and expenses not involving cash flows: | | | |
| Depreciation and amortization | 12,025 | (*)14,606 | 78,033 |
| Company's equity in losses (earnings) of investee companies less of dividend received, net | (221) | 7,933 | 27,182 |
| Minority interest in results of subsidiaries, net | 12,588 | (*)36,244 | 81,790 |
| Gain on marketable securities and deposits, net | (19,412) | (22,790) | (56,703) |
| Expenses (income) from financing activities | 1,151 | (3,108) | 27,405 |
| Deferred taxes, net | 1,047 | (2,178) | 42,011 |
| Increase (decrease) in liability for employee severance benefits, net | 717 | 356 | (3,450) |
| Loss (gain) on sale and amortization of investments and assets, net | (27,610) | (94,665) | (366,166) |
| Cost of share-based payment transactions | 423 | - | - |
| Cumulative effect as at beginning of year of change in accounting principles, net | (619) | - | - |
| Changes in asset and liability items | | | |
| Decrease (increase) in trade receivables and other receivables | 3,661 | (*)14,180 | (23,393) |
| Decrease (increase) in inventory and in land business inventory holdings, net | 43,755 | 3,871 | (23,869) |
| Increase (decrease) in suppliers and service providers | (27,045) | (*)20,772 | 114,828 |
| | 460 | (24,779) | (102,332) |

(*) Restated

Consolidated Statements of Cash Flows (cont'd)**Reported amounts****Annex B - Non-cash transactions**

| | For the three months ended | | For the |
|---|-----------------------------------|----------------------|----------------------|
| | March 31 | March 31 | year ended |
| | 2006 | 2005 | December 31 |
| | (Unaudited) | (Unaudited) | (Audited) |
| | NIS thousands | NIS thousands | NIS thousands |
| Conversion of convertible bonds into Company shares | - | 927 | 1,391 |
| Proceeds from sale of investment in investee | - | 12,703 | - |
| Purchase of fixed assets on credit | 2,941 | 1,301 | 1,468 |
| Liability to invest in other companies | - | - | 84 |
| Sale of fixed assets on credit | - | - | 10,438 |
| Conversion of debentures into shares of subsidiary | 3,564 | - | 32,532 |
| Dividend to minority in subsidiaries | 6,863 | - | - |
| Dividend proposed | 14,861 | - | - |

Annex C - Initially fully or proportionately consolidated companies and acquisition of activities

| | For the three months ended | | For the |
|--|-----------------------------------|----------------------|----------------------|
| | March 31 | March 31 | year ended |
| | 2006 | 2005 | December 31 |
| | (Unaudited) | (Unaudited) | (Audited) |
| | NIS thousands | NIS thousands | NIS thousands |
| Working capital, net (excluding cash and cash equivalents) | - | - | 1,279 |
| Long-term liabilities | - | - | 2,421 |
| Excess cost | - | - | (10,502) |
| Balance of investment in companies as at date of initial consolidated | - | - | 8,235 |
| Minority share in deficiency | - | - | (1,426) |
| | - | - | 7 |

Consolidated Statements of Cash Flows (cont'd)**Reported amounts****Annex D - Companies formerly fully or proportionately consolidated
no longer consolidated and activities sold.**

| | For the three months ended | | For the |
|---|----------------------------|---------------|---------------|
| | March 31 | March 31 | year ended |
| | 2006 | 2005 | December 31 |
| | (Unaudited) | (Unaudited) | (Audited) |
| | NIS thousands | NIS thousands | NIS thousands |
| Working capital, net (excluding cash and cash equivalents) | (54) | - | (30,672) |
| Investments and long-term loans | - | - | 16,467 |
| Fixed and other assets | 2,557 | - | 17,672 |
| Long-term liabilities | (2,220) | - | (1,254) |
| Minority interest | - | - | (7,971) |
| Balance of loans and investments which left at the time of exit from consolidation | - | - | (18,080) |
| Capital gain (loss) on sale or issuance to third party | (404) | - | 33,059 |
| Proceeds on credit | - | - | (2,532) |
| | (121) | - | 6,689 |

Annex E – Companies formerly proportionately consolidated initially fully consolidated

| | For the three months ended | | For the |
|--|----------------------------|---------------|----------------|
| | March 31 | March 31 | year ended |
| | 2006 | 2005 | December 31 |
| | (Unaudited) | (Unaudited) | (Audited) |
| | NIS thousands | NIS thousands | NIS thousands |
| Working capital, net (excluding cash and cash equivalents) | (1,064) | - | 10,093 |
| Fixed assets, net | - | - | (7,908) |
| Goodwill created upon acquisition | 2,998 | - | (2,209) |
| Long-term investments and debits | (1,052) | - | 211 |
| Other assets, net | - | - | (3,883) |
| Long-term liabilities | (3,962) | - | 1,006 |
| Excess cost upon liabilities | 5,357 | - | - |
| | 2,277 | - | (2,690) |